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EXPLANATORY NOTES TO SCHEDULE 10-B: ESTIMATED DEVELOPMENT COSTS AND CAPITAL REQUIREMENTS.

1. SOURCES OF FUNDS DURING CONSTRUCTION

List all funding sources to be used during the construction of the project and indicate for each whether it is a grant or a loan. If a loan, indicate whether or not it must be repaid from project revenues using a "y" for yes and an "n" for not. If it is a grant, indicate so with a "g".

Be certain to list only funds available during construction. This will include any construction loans made by lenders other than the HMFA. If you are applying for an HMFA Construction and Permanent Loan, the HMFA 1st mortgage loan and any other HMFA loans should be listed in this section. If HMFA is supplying a permanent loan only, **do not put it as a funding source here. There will be another section (#5) for "Sources of Funds For Permanent Closing".** If you are also applying for *Home Express* funds, they may be shown in this section if they are needed during construction.

2. USES of FUNDS DURING CONSTRUCTION

List all costs associated with the construction of the project.

A. ACQUISITION COSTS

a) *and* b) *Land/Buildings:* The actual cost of acquisition is determined by HMFA after appraisal. The HMFA recognizes the lesser of the appraised value or the purchase price of the property in the most recent arm's length transaction. This may include documented carrying costs, expenditures to obtain zoning, environmental or other governmental approvals necessary or required for the development of the project. For application purposes, place the actual costs you have committed to or paid, i.e. that which is in your *Option to Purchase, Contract, etc.*

c) *and* d) *Relocation and Other*: These costs are subject to State guidelines and may be approved by NJHMFA with supporting documentation.

B. CONSTRUCTION COSTS

Construction cost estimates are based on prevailing wages as published by the New Jersey Department of Labor, unless construction financing is being provided by a source other than HMFA and the sponsor indicates that New Jersey Prevailing wages are not required.

a) *Demolition:* Estimated costs to prepare the site for construction.

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b) *Off-Site Improvements:* Estimated cost of any required off-site improvements such as access roads, sewer lines, etc.

c) *Residential Structure:* The actual cost of the structure.

d) *Community Service Facility:* In order for a structure other than the residential structure to be eligible for tax-exempt financing it must be "functionally related" to the residential structure. Therefore, the sponsor should check the Internal Revenue Code for eligible costs. Ineligible costs may be funded with the sponsor's equity contribution.

e) *Environmental Clearances:* Estimated cost of obtaining all applicable permits and clearances from local, state and Federal environmental authorities.

f) *Surety & Bonding:* Premium for obtaining 100% payment and performance bonds when using HMFA construction financing. A warranty or maintenance bond may be used when using HMFA permanent financing only. Alternatively, a letter of credit equal to 10% of the permanent mortgage amount may be used for HMFA permanent financing only.

g) *Building Permits:* Cost of obtaining all required building permits.

h) *Garage Parking:* The costs of constructing a garage or parking area for Tenants use.

i) *Utility Connection Fees:* Developer's should contact utility companies and determine the cost of connection.

j) *General Requirements:* Self-explanatory.

k) *Contractor Overhead and Profit:* Negotiated fee with General Contractor as approved by HMFA.

l) and m) *Other:* Any other costs associated with construction.

C. <u>DEVELOPMENT FEE</u>

The amount of the Developer's fee allowed is limited to 15% of total development cost excluding land, working capital, marketing expenses, escrows, and operating deficit reserves. A developer fee of up to 20% is allowed if the housing is one of the following types:

a. Scattered site single family or duplex housing

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b. Projects of 25 units or less

c. Housing for Special Needs Population

Professional fees NOT included in the developer's fee are the fees for the architect/engineer, lawyer, accountant, surveyor, appraiser, professional planner, historical consultant, and environmental consultant. All other consultant fees shall be included in the developer fee.

D. CONTINGENCY

Hard Costs: New construction requires 5% of construction costs. Rehabilitation requires a maximum of 10% of construction costs.
Soft Costs: A maximum of 5% is acceptable.

E. PROFESSIONAL SERVICES

All contracts and fees for items (a) through (k) are negotiated between the sponsor and professional and are subject to HMFA approval.

F. PRE-OPERATIONAL EXPENSES

a) Operator Fee: On average, the rent-up fee should not exceed $250.00 per unit.

b) Advertising and Promotion: Fees for advertising and promotion are negotiated and subject to HMFA approval.

c) Staffing and Start-up Supplies: Costs you will entail prior to the opening of the building. This could include the salary for a marketing person, the cost of signs, Development of letterhead, etc.

d) Housing Affordable Services Fee: If Balanced Housing funds are being utilized for the project, the Department of Community Affairs (DCA) requires that a Housing Assistance Services (HAS) fee of $500.00 per unit should be budgeted.

e) Other: Only with supporting documentation and are subject to HMFA approval.

G. CARRYING AND FINANCING COSTS

a) *Interest During Construction*: The developer should go to the HMFA Web Site at www.nj-hmfa.com and follow the links to ascertain the current interest rate. There are two ways of arriving at the amount of interest during construction. The first and most accurate is to base this number on the draw schedule for the development. The other method is to base the construction period interest one half of the maximum mortgage amount over the term of the construction loan.

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b) *Real Estate Taxes During Construction*: The developer should obtain the local tax assessment and multiply it by the length of the construction period to determine total amount of taxes during the construction period.

c) *Insurance:* During construction, the developer is required to obtain the necessary insurance coverage for the project in accordance with procedures established by the HMFA, including multi-hazard and public liability to protect the developer's and HMFA's respective interests. Sponsors should obtain premium estimates for these policies so that they may be included in the Project's Form 10 estimated annual budget. See the HMFA Underwriting Guidelines and Financing Policy for required insurance coverage.

d) *Title and Recording Expenses*: Title insurance and recording expenses, monthly continuation searches and surveys as required in connection with monthly advances on the building loan which are not chargeable to the general contractor under the terms of the construction contract.

e) *HMFA Points:* **To reduce annual servicing fee, see the Typical Fee Section.**

f) *HMFA Second Note Financing Fee:* The HMFA does not charge a loan origination fee except in cases where there is non-amortizing debt. An origination fee of two points (2%) of the mortgage loan amount must be budgeted for all non-amortizing debt.

g) *HMFA Construction Loan Servicing Fee:* Fifty basis points (.5%) for the term of construction on the mortgage amount. Fifty basis points (.5%) must also be budgeted for all amortizing and non- amortizing debt used during the construction period.

h) *Other Lender Construction Financing Fee:* Self-explanatory

i) *Tax Credit Fees:* Self-explanatory

j) *Negative Arbitrage:* Self-explanatory

k) *Cost of Issuance:* Self-explanatory

NOTE: If HMFA will be selling Bonds for the Project either before or during the time the Development is under construction, these costs should be accounted for during the construction period.

l) Other: Self-explanatory

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3. USES OF FUNDS DURING CONSTRUCTION:

Totals of A through G

4. BALANCE OF FUNDS NEEDED FOR CONSTRUCTION (overage/shortage):

The difference between the amount of funds you have to construct the project and the cost to build the project.

5. SOURCES OF FUNDS FOR PERMANENT CLOSING:

List all funding sources to be used in order to switch to the permanent loan. That is, if the HMFA is the construction and permanent loan provider, you will only need to place the sources of funds in this area that you will need to fund the escrows. If there is an "overage" in line "4" *Balance of Funds Needed for Construction,* reduce the "Sources Needed During Construction" above and bring the difference down to this section. If there is a shortage of funds for closing, show how that gap will be filled. If the HMFA is providing the Permanent Loan Only, the HMFA mortgage loan(s) should be placed in this section along with any other funds available for the closing of the permanent loan.

6. DEVELOPER'S FEE:

List only the portion of funds not pledged or deferred during the construction phase.

7. USES OF FUNDS FOR PERMANENT CLOSING:

A. HMFA Points (to reduce annual servicing fee) Self-explanatory

B. HMFA Second Note Financing Fee Self-explanatory

C. CONSTRUCTION LOAN PAYOFF:
If you are seeking a permanent loan only from the HMFA, place the amount of your construction loan in this section. If the HMFA is providing both the construction and permanent loan, leave this section blank.

D. Negative Arbitrage Self-explanatory

E. Cost of Issuance Self-explanatory

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F. <u>ESCROW REQUIREMENTS:</u>

1) *Working Capital Escrow:*
   a) *Debt Service & Operating Expenses:* Based on 75% of the annual anticipated operating expenses, and debt service over the term of the anticipated rent up.
   b) *Rental Agency Rent-up (during rent-up):* Self-explanatory
   c) *Advertising and Promotion (during rent-up):* Self-explanatory

2) *Other Escrows:* Self-explanatory
   a) *Insurance:* The cost of Liability and Hazard on the facility; See the HMFA Underwriting Guidelines and Financing Policy for required insurance coverage.
   b) Taxes: Self-explanatory
   c) Debt Service Payment & Servicing Fee for one month: Self-explanatory
   d) Mortgage Insurance Premium: There may be instances where credit enhancement is required. If HUD Insurance is used as the enhancement, there will be a yearly fee paid to HUD in advance plus an additional 3 months of payment will be held in escrow at closing.
   e) Repair and Replacement Reserves: On occasion, under certain circumstances there may be a need to withhold funds for work to be done after closing.
   f) Operating Deficit Reserve: In some cases, the HMFA may require the developer to place some funds in to an operating deficit fund to ensure against the project's debt service ratio dipping below the required percentage.
   g) Other: Self-explanatory

8. <u>USES OF FUNDS FOR PERMANENT CLOSING</u> Self-explanatory

9. <u>BALANCE NEEDED TO CLOSE (overage/shortage):</u>

10. TOTAL PROJECT COSTS

11. <u>MAXIMUM MORTGAGE LOAN*</u>

Show percentage of total project cost and dollar amount.

12. <u>SPONSOR'S EQUITY</u>

Differential between line 9 and line 10.

In order to help a sponsor meet the equity requirement, he may, subject to prior approval of the Agency, pledge in whole or in part various mortgageable items in which it has an interest. For example, the sponsor, with the concurrence of other parties in interest, may pledge the development fee, and certain professional fees or pledge cash in the form of a letter of credit. Also, the Agency's approved value of the site to the extent of the sponsor's equity therein, may be pledged.

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13. **<u>REPAYMENT OF SECOND NOTE:</u>** The HMFA may finance projects utilizing tax-exempt bonds with the intention of being eligible for credits on 100% of the projects eligible basis by satisfying the requirements established by the Internal Revenue Service 50% (the Agency uses 55% as a safe harbor) of aggregate basis test. Meeting the 55% test is often achieved through the provision of two mortgage notes. The first note is sized based upon the amount of debt that can be amortized in accordance with the Agency's underwriting standards. The second note is sized based upon the difference between the first note and that amount of funding needed to achieve 55% coverage of the aggregate costs. The determination that a project meets the 55% test and the term of the debt to be retired is subject to HMFA bond counsel opinion. In these situations, the second note repayment is shown in the section.

*Maximum Mortgage for Developments Financed with Volume Cap Tax-Exempt Bond Proceeds